

Steve Westly *California State Controller*



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Westly Report Shows Cash Flow Up; State Still Faces Cash Crisis in June

Sacramento, November 6, 2003 – California State Controller Steve Westly today sent Governor-elect Arnold Schwarzenegger a report showing an improved outlook on the state's revenues, but warned that the budget challenges remain extraordinary.

"This takes five pounds off Arnold's 500-pound budget barbell," said Westly. "The Governor-elect must be fast and furious in getting our fiscal house in order."

According to the report, actual revenues for the current fiscal year are \$777 million higher (approximately 3.6 percent) than forecast by the Department of Finance. Most of this increase results from continuing growth in California's Personal Income Tax collections.

Still, without issuance of a \$10.7 billion Fiscal Recovery Bond or a more fiscally conservative alternative, the state will run out of cash in June 2004.

The Governor-elect's promise to rescind the Motor Vehicle License Fees only makes his budget challenges even greater.

"One plus one doesn't equal zero," added Westly. "The new Governor is going to have make serious spending and revenue decisions in order to balance the budget."

Text of Westly's letter to Schwarzenegger and revenue report follow

Text of Letter to Governor-Elect Schwarzenegger

Dear Governor-Elect Schwarzenegger:

This is the final California Revenue Report I will provide before you assume office.

Actual revenues for the current fiscal year are \$777 million higher (approximately 3.6 percent) than budgeted by the Department of Finance. Most of this increase is due to continuing growth in California's Personal Income Tax collections.

While this is good news, it will not be sufficient to address cash obligations this year unless the \$10.7 billion Fiscal Recovery Bond is issued on time. Without this bond or a more fiscally conservative alternative, California will run out of cash in June 2004. Reducing the Motor Vehicle License Fees, providing rebates and reinstating the \$4 billion backfill to local government only makes this challenge greater.

I have attached the revenue numbers and I hope you find them useful as you begin the hard work of restoring California's financial stability.

You will need to quickly balance this year's budget and propose a balanced budget for next year as well.

As California's chief financial officer and fiscal watchdog, I am always available to help you and your new administration work sound fiscal policy that will reduce government bureaucracy and strengthen our economy.

Sincerely,

Steve Westly
Controller

General Fund Revenues for October 2003

In thousands

	October 2003		Actual Over or (Under) Estimate	
	Actuals	DOF's Budget Act Estimates	Amount	%
Alcoholic Beverage Excise Tax	28,466	25,000	3,466	13.9
Corporation Tax	260,836	297,000	(36,164)	(12.2)
Cigarette Tax	8,023	10,000	(1,977)	(19.8)
Estate, Inheritance, and Gift Tax	59,208	47,000	12,208	26.0
Insurance Companies Tax	17,224	13,000	4,224	32.5
Personal Income Tax	2,457,983	2,412,000	45,983	1.9
Retail Sales and Use Taxes	923,976	873,000	50,976	5.8
Pooled Money Investment Interest	2,167	17,000	(14,833)	(87.3)
Not Otherwise Classified*	63,888	55,000	8,888	16.2
Total Revenues	<u>3,821,771</u>	<u>3,749,000</u>	<u>72,771</u>	1.9

*Excludes \$2.0 billion Tobacco Securitization Bonds from DOF's Budget Act Estimates

Major General Fund Revenues as of October 31, 2003

In thousands

	Actual	DOF's Budget Act Estimates	Actual Over or (Under) Estimate	
			Amount	%
Alcoholic Beverage Excise Tax	110,483	106,070	4,413	4.2
Corporation Tax	1,954,645	1,942,030	12,615	0.6
Cigarette Tax	39,109	40,452	(1,343)	(3.3)
Estate, Inheritance, and Gift Tax	210,991	248,763	(37,772)	(15.2)
Insurance Companies Tax	473,310	469,219	4,091	0.9
Personal Income Tax	10,718,102	10,160,968	557,134	5.5
Retail Sales and Use Taxes	6,429,353	6,310,649	118,704	1.9
Pooled Money Investment Interest	38,835	62,137	(23,302)	(37.5)
Not Otherwise Classified *	2,586,828	2,443,871	142,957	5.8
Total Revenues	<u>22,561,656</u>	<u>21,784,159</u>	<u>777,497</u>	3.6

*\$2,263,609 Tobacco Securitization Bonds (TSB) were received in September 2003
\$2.0 billion TSB were included in October 2003 in DOF's estimates.

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